

LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2015

LAUDERDALE COUNTY WATER SYSTEM
FINANCIAL STATEMENTS
Year Ended June 30, 2015

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Introductory Section

LAUDERDALE COUNTY WATER SYSTEM
Roster of Board Members and Management
For the Year Ended June 30, 2015

BOARD MEMBERS:

John Ewer

Joe Larry Ferguson

William H. Jarrett

Rick Jenkins

William G. Parker

EX- OFFICIO MEMBERS:

Sandra Hughes

Joe Carmack

MANAGEMENT:

Randy Newman, Superintendent

Stacy Crowder, Office Manager

Financial Section

William M. Harmon

Certified Public Accountant

P.O. Box 491, 117 N. Main St.
Ripley, TN 38063-0491
Tel. (731) 635-3791
Fax (731) 635-5626
williamharmoncpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee 38063

Report on the Financial Statements

I have audited the accompanying financial statements of The Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Lauderdale County Water System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lauderdale County Water System as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

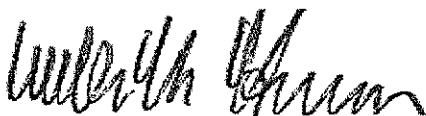
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County Water System's financial statements as a whole. The introductory section and accompanying financial information listed as other supplementary information in the table of contents includes supplementary information that is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except that marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and supplementary information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated January 18, 2016, on my consideration of the Lauderdale County Water System's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lauderdale County Water System's internal control over financial reporting and compliance.



William Harmon
Certified Public Accountant
Ripley, Tennessee
January 18, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Lauderdale County Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2015. Management encourages readers to consider the information presented here in conjunction with the System's financial statements.

Financial Highlights

- The assets of the Lauderdale County Water System exceeded its liabilities at the close of the most recent fiscal year by \$6,323,828 (*net position*). Of this amount, \$2,257,461 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$4,066,367 (*invested in capital assets*) reflects the net position invested in capital assets.
- The total net position increased by \$77,124 for the fiscal year ended June 30, 2015.
- The Water System ended the year June 30, 2015 with cash and investments of \$2,370,060, representing a decrease of \$75,824 over the prior year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this decrease was primarily due to the System paying for installation of auto read meters and using the available cash funds to make this capital purchase.

Overview of the Financial Statements and Supplementary Information

This discussion and analysis is intended to serve as an introduction to the Lauderdale County Water System's financial statements which consist of two components: fund financial statements and notes to the financial statements.

As an enterprise fund, the financial statements of Lauderdale County Water System are presented on the full accrual basis, presenting assets and liabilities of the Water System in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Lauderdale County water System's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water System is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected water revenue and earned but unused employee compensated absences).

The *statement of cash flows* reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Lauderdale County Water System, assets exceeded liabilities by \$6,323,828 at the close of the fiscal year.

The largest portion of the Water System's assets, (approximately 61%), are investments in property, plant and equipment, followed by investments, (17%), and cash and cash equivalents, (18%). The investment in property, plant and equipment are used to provide services to citizens. Consequently, these assets are not available for future spending.

Table 1
Lauderdale County Water System's Net Position

	For the Years Ending June 30,		Increase (Decrease)	%Change
	2015	2014		
Current Assets	\$ 2,544,919	\$ 2,616,753	(71,834)	-2.75%
Net Property Plant & Equipment at Cost	4,066,367	3,855,180	211,187	5.48%
Total Assets	\$ 6,611,286	\$ 6,471,933	139,353	2.15%
Current Liabilities	\$ 287,459	\$ 225,230	62,229	27.63%
Long-Term Liabilities	0	0	0	0.00%
Total Liabilities	\$ 287,459	\$ 225,230	62,229	27.63%
Net Invested In Capital Assets Net of Related Debt	4,066,367	3,855,180	211,187	5.48%
Net Position - Unrestricted	2,257,461	2,391,524	(134,063)	-5.61%
Total Net Position	6,323,828	6,246,704	77,124	1.23%
Total Liabilities and Net Position	\$ 6,611,287	\$ 6,471,934	139,353	2.15%

Table 2
Lauderdale County Water System's
Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2015	June 30, 2014	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 1,307,649.00	\$ 1,301,344.00	\$ 6,305.00	0.48%
Total Revenues	\$ 1,307,649.00	\$ 1,301,344.00	\$ 6,305.00	0.48%
Operating Expenses				
Salaries	\$ 338,124.00	\$ 327,126.00	\$ 10,998.00	3.36%
City Water Purchased	139,902.00	133,603.00	6,299.00	4.71%
Depreciation	264,324.00	267,800.00	(3,476.00)	-1.30%
Insurance expense	72,203.00	68,080.00	4,123.00	6.06%
All Other Operating Expenses	366,175.00	369,663.00	(3,488.00)	-0.94%
Total Operating Expenses	\$ 1,180,728.00	\$ 1,166,272.00	\$ 14,456.00	1.24%
Total Non-Operating Revenues (Expenses)	\$ 9,861.00	\$ 8,324.00	\$ (1,537.00)	18.46%
Capital Contributions	\$ -	\$ -	\$ -	
Change in Net Position	\$ 136,782.00	\$ 143,396.00	\$ (6,614.00)	-4.61%
Net Position - Beginning	6,246,704.00	6,103,307.00	143,397.00	2.35%
Prior Period Adjustment	(59,658.00)	-	(59,658.00)	
Net Position - Ending	\$ 6,323,828.00	\$ 6,246,703.00	\$ 136,783.00	2.19%

Capital Assets

The Lauderdale County Water System's investment in capital assets was \$4,066,367 (net of accumulated depreciation) as of June 30, 2015. This was a net increase of \$211,187 from the prior year. This increase is primarily due to the purchase of the auto read meter system installed during the current fiscal year. Capital assets include water processing plants, water towers, pumping stations, water lines and operating structures necessary to provide water service to customers.

Debt

No new debt was incurred in the fiscal year ending 2015. The previous long term debt was paid off in the fiscal year ended June 30, 2013 using the Systems fiscal reserves.

Future Projections

The primary goals of the Lauderdale County Water System are to continue providing quality and efficient services to the water customers of Lauderdale County. The System continues to work to improve the services offered and improve the plant and system for the benefit of the customers. This includes further installation of auto read meters to increase efficiency.

Requests for Information

This financial report is intended to provide an overview of the Water System's finances for those with an interest in this organization. Questions concerning any information within this report may be directed to the Superintendent of Lauderdale County Water System, P.O. Box 527, Ripley, TN 38063.

Randy Newman

Superintendent

Lauderdale County Water System

LAUDERDALE COUNTY WATER SYSTEM

Statement of Net Position

As of June 30, 2015

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,220,060
Investments	1,150,000
Accounts Receivable	121,637
Prepaid Expenses	4,598
Inventory	48,624

TOTAL CURRENT ASSETS		\$ 2,544,919
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PROPERTY, PLANT, AND EQUIPMENT (at cost)

Utility plant in service	\$ 8,755,885
Equipment	455,537
Less: Accumulated Depreciation	<u>(5,145,055)</u>

NET PROPERTY, PLANT, AND EQUIPMENT		<u>4,066,367</u>
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TOTAL ASSETS		\$ <u>6,611,287</u>
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LIABILITIES AND NET POSITION

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 51,715
Accrued Interest	-
Bonds Payable - Current	-
Accrued Wages	31,057
Customer Meter Deposits	204,687

TOTAL CURRENT LIABILITIES		\$ 287,459
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LONG-TERM LIABILITIES

Bonds Payable (net of current portion)	\$ -
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TOTAL LONG-TERM LIABILITIES		<u>-</u>
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TOTAL LIABILITIES		\$ 287,459
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NET POSITION

Investment in Capital Assets	\$ 4,066,367
Restricted	-
Unrestricted	<u>2,257,460</u>

TOTAL NET POSITION		\$ <u>6,323,828</u>
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TOTAL LIABILITIES AND NET POSITION		<u>\$ 6,611,287</u>
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The Notes to the Financial Statements are an Integral Part of This Statement.

LAUDERDALE COUNTY WATER SYSTEM
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2015

Operating Revenues		
Water Revenues	\$	1,228,819
Other Revenue		76,034
Sale of Material		<u>2,797</u>
Total Operating Revenues	\$	1,307,650
Operating Expenses		
City Water Purchased	\$	139,902
Salaries		338,124
Contract Meter Reading		36,441
Payroll Tax Expense		25,597
Retirement Expense		19,679
Uniform & Clothing		3,003
Commissioners' Compensation		4,011
Postage		12,486
Freight Charges		55
Licenses		350
State Fees		4,948
Membership Fees		4,039
Public Relations		550
Electrical		95,455
Gas - Heating		2,279
Phone		3,352
Lab Tests & Lab Expense		7,190
Professional Fees		4,050
Engineering Expense		2,409
Truck Repairs Expense		6,606
Backhoe Repairs		614
Ditcher Repairs		1,876
Radio Repairs Expense		2,200
Tires & Tire Repairs		2,663
Fuel Expense		17,403
Line Repairs & Maintenance		3,196
Plant Repairs & Maintenance		26,670
Office Expense		12,981
Chemical Expense		22,256
Supplies - Lab		1,514
Supplies - Miscellaneous		2,234
Supplies - Repair		39,784
Insurance expense		72,203
Depreciation		264,324
Bank Service Charges		<u>284</u>
Total Operating Expenses	\$	<u>1,180,728</u>
Operating Income (Loss)	\$	126,921
Nonoperating Revenues (Expenses)		
Interest Income	\$	9,861
Interest Expense		-
Sale of Assets		<u>-</u>
Total Nonoperating Revenues (Expenses)	\$	<u>9,861</u>
Change in Net Position	\$	136,782
Net Position - July 1, 2014	\$	<u>6,246,704</u>
Prior Period Adjustment (See Note 8)		(59,658)
Net Position - June 30, 2015	\$	<u>6,323,828</u>

The Notes to the Financial Statements are an Integral Part of This Statement

LAUDERDALE COUNTY WATER SYSTEM
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITY:		
Cash received from customers	\$ 1,321,544	
Cash paid to suppliers of goods & services	(491,887)	
Cash paid to employees for services	(380,173)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 449,484
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond Payments	\$ -	
Construction and Acquisition of plant and equipment	(475,511)	
Interest Paid	-	
Sale of Assets	-	
Lease Payments	-	
Notes Payable	-	
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(475,511)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income on Investments	\$ 9,861	
Redemption of Investments	-	
NET CASH FLOWS FROM INVESTING ACTIVITIES		\$ 9,861
NET INCREASE (DECREASE) IN CASH		\$ (16,166)
CASH AND CASH EQUIVALENTS - July 1, 2014		\$ 1,295,884
Prior Period Adjustment (See Note 8)		(59,658)
RE CASH AND CASH EQUIVALENTS - June 30, 2015		\$ 1,220,060
OPERATING INCOME		
Adjustments to reconcile operating income to net cash provided by operating activities:		\$ 126,921
Depreciation	\$ 264,324	
(Increase) Decrease in Current Assets:		
Accounts Receivable	401	
Prepaid Expenses	(667)	
Inventory	(3,724)	
Increase (Decrease) in Current Liabilities		
Accounts Payable	48,278	
Accrued Wages	7,238	
Customer Meter Deposits	6,713	
NET Total Adjustments		322,563

The Notes to the Financial Statements are an Integral Part of This Statement.

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lauderdale County Water System (the Water System) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Lauderdale County Water System (the Water System), a component unit of Lauderdale County, Tennessee, was created in 1974. These financial statements are limited to the assets, liabilities, fund balance, and results of operations of the Lauderdale County Water System. They are not intended to present the assets, liabilities, fund balances and results of operations of Lauderdale County taken as a whole. The County Commission of Lauderdale County appoints the five member Commissioners of the Lauderdale County Water System, approves the operating budget of the Water System and is liable for any unpaid debt of the Water System. The Water System provides water service to unincorporated areas of Lauderdale County, Tennessee.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The Water System is a proprietary fund; its operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Non-operating revenues, such as interest income, result from non-exchange transactions or ancillary activities.

Only one fund is presented within these financial statements.

b. Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Water System, the reporting entity. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

3. Financial Statement Amounts

a. Deposits and Investments

The Water System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Under the laws of Tennessee the Water System is authorized to invest with obligations of the United states or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, 2015 the Water System did not own any types of securities other than those permitted by statute.

Investments for the Water System are in the form of Certificates of Deposits and are reported at fair value.

b. Capital Assets

Purchased or constructed capital assets are reported at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following useful lives:

	<u>Estimated Useful Life</u>
Utility plant in service	10-50 years
Equipment	2-10 years

c. Receivables

Accounts receivable arise from water services rendered to the customers of the Water System. The board of directors authorizes write-downs of customer billings due to leaks and write-offs of accounts considered uncollectible. Amounts subsequently collected from a bad-debt write-off are recorded as income.

d. General Statement

The Lauderdale County Water System complies with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Water System applies all GASB pronouncements (including all NCGA Statements and Interpretations currently in effect).

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

f. Compensated Absences

The Water System accrues vacation and compensated time for its employees to use in future periods.

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

g. Inventory

Inventory of supplies are recorded at historical cost using the first in-first out method.

h. Risk Management

The Water System is exposed to various risks of loss related to tort; theft of, or damage to assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2015, the Water Service was covered by insurance for these various risks at a cost it considered to be economically justifiable. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

i. Restricted Resources

The Water System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

NOTE 2: DEPOSITS AND INVESTMENTS

The System's deposits and investments at June 30, 2015 consist of the following:

Deposits:

Cash On Hand	\$ 245
Cash In Bank	1,218,373
Cash On Deposit Through County Trustee	<u>1,442</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 1,220,060</u></u>

Investments:

Certificates of Deposits Managed by County Trustee	<u>\$ 1,150,000</u>
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The Water System's deposits and investments at June 30, 2015 were covered by federal depository insurance or by the Tennessee Collateral Pool or by securities held by the custodial bank in the County Trustee's name.

Interest rate risk. To minimize exposure to declines in fair value, the certificates of deposit have staggering maturity rate with maturity dates of one year.

Custodial credit risk. The certificates of deposit are held in the County Trustee's Office name for the benefit of the Water System, and are not subject to custodial credit risk.

Concentrations of credit risk. The certificates of deposit are not subject to concentrations of credit risk as the custodial banks are either a member of the Tennessee Collateral Pool or provide securities held by the custodial bank as security for the funds invested.

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015**

NOTE 3: CAPITAL ASSETS

Capital asset activity was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>
Capital Assets Not Being Depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital Assets Being Depreciated:				
Water Plant	8,285,369	460,516	-	8,745,885
Plant Equipment	94,847	11,500	-	106,347
Office Equipment	51,097	3,495	-	54,592
Equipment	<u>294,599</u>	<u>-</u>	<u>-</u>	<u>294,599</u>
Total Capital Assets Being Depreciated	8,725,912	475,511	-	9,201,423
Less - Accumulated Depreciation For:				
Water Plant	4,545,397	238,139	-	4,783,536
Plant Equipment	52,630	5,912	-	58,542
Office Equipment	43,116	3,311	-	46,427
Equipment	<u>239,589</u>	<u>16,962</u>	<u>-</u>	<u>256,551</u>
Total Accumulated Depreciation	<u>4,880,732</u>	<u>264,324</u>	<u>-</u>	<u>5,145,056</u>
Total Capital Assets Being Depreciated Net	<u>3,845,180</u>	<u>211,187</u>	<u>-</u>	<u>4,056,367</u>
Business-Type Activities Capital Assets - Net	<u>\$ 3,855,180</u>	<u>\$ 211,187</u>	<u>\$ -</u>	<u>\$ 4,066,367</u>

NOTE 4: BONDS PAYABLE

The Water System's bond payable/ loans were retired as of June 30, 2013.

NOTE 5: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

An annual budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Some expenditures exceeded appropriations.

NOTE 6: CONCENTRATION OF CREDIT RISK

The Water System receives its operating funds from fees charged to water customers in Lauderdale County, Tennessee. While the Water System as a broad consumer base, the ability of customers to pay their accounts is dependent on the economic conditions of the area.

NOTE 7: RETIREMENT PLAN

The pension fund of the Lauderdale County Water System is included in the total retirement program for Lauderdale County, Tennessee under the Tennessee Consolidated Retirement System. Five percent (5%) is deducted from the employee's checks and the county pays a percentage match of 7.45% to fund the employees retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 8: PRIOR PERIOD ADJUSTMENT:

The books were adjusted for the prior period to reconcile the County Trustee accounts with the ledger of the Water System. This adjustment was for the amount of \$59,658.

NOTE 9: SUBSEQUENT EVENTS

The subsequent events have been evaluated through December 31, 2015, which is the date the financial statements were available to be issued. There were no significant events noted.

Supplementary Information



AWWA Free Water Audit Software: Reporting Worksheet Unaudited

v5.0

American Water Works Association
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- Click to access definition
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Water Audit Report for: **Lauderdale County Water System (0000581)**Reporting Year: **2015** | **7/2014 - 6/2015**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable, please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades.

All volumes to be entered as: **MILLION GALLONS (US) PER YEAR**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Volume from own sources: 7 239.107 MG/Yr
Water imported: 7 43.692 MG/Yr
Water exported: n/a 0.000 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: 3 Value: 3 -3.00% MG/Yr
 3 3 MG/Yr
 3 3 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 284.150 MG/Yr**AUTHORIZED CONSUMPTION**

Billed metered: 7 185.480 MG/Yr
Billed unmetered: n/a 0.000 MG/Yr
Unbilled metered: 5 0.094 MG/Yr
Unbilled unmetered: 5 3.552 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 189.126 MG/Yr

Click here: for help using option buttons below

Pcnt: 1.25% Value: 0 MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: 0.25% Value: 0 MG/Yr

9.00% 0 MG/Yr
 0.25% 0 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

95.024 MG/Yr

Apparent Losses

Unauthorized consumption: 5 0.710 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 6 18.353 MG/Yr
Systematic data handling errors: 7 0.454 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 19.528 MG/Yr**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses: 7 75.497 MG/Yr

WATER LOSSES: 95.024 MG/Yr**NON-REVENUE WATER****NON-REVENUE WATER:** 7 98.670 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 5 650.0 miles
Number of active AND inactive service connections: 7 4,802
Service connection density: 7 7 conn./mile main

Are customer meters typically located at the curbside or property line?

Yes

(length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: 7
Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 3 55.0 psi

COST DATA

Total annual cost of operating water system: 10 \$1,235,268 \$/Year
Customer retail unit cost (applied to Apparent Losses): 8 \$6.00 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): 3 \$578.34 \$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 65 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Variable production cost (applied to Real Losses)

3: Unbilled metered



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

Unaudited

AWAS v5.0
American Water Works Association
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Water Audit Report for: **Lauderdale County Water System (0000581)**

Reporting Year: **2015** **7/2014 - 6/2015**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 65 out of 100 ***

System Attributes:

Apparent Losses: **19.528** MG/Yr
+ Real Losses: **75.497** MG/Yr
= **Water Losses: 95.024** MG/Yr

Unavoidable Annual Real Losses (UARL): 85.05 MG/Yr

Annual cost of Apparent Losses: **\$117,165**

Annual cost of Real Losses: **\$43,663**

Valued at **Variable Production Cost**
Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:

Non-revenue water as percent by volume of Water Supplied: **34.7%**

Non-revenue water as percent by cost of operating system: **13.2%**

Real Losses valued at Variable Production Cost

Operational Efficiency:

Apparent Losses per service connection per day: **11.14** gallons/connection/day

Real Losses per service connection per day: **N/A** gallons/connection/day

Real Losses per length of main per day*: **318.22** gallons/mile/day

Real Losses per service connection per day per psi pressure: **N/A** gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): **75.50** million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]: 0.89

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

LAUDERDALE COUNTY WATER SYSTEM
Schedule of Current Utility Rates in Force
For the Year Ended June 30, 2015

WATER RATES:

Minimum bill up to 2,000 gal.	\$	11.00
Over 1,500 gallon minimum		6.00 per 1,000 gallons

# of customers as of	June 30, 2015	3,839
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See Independent Auditor's Report

LAUDERDALE COUNTY WATER SYSTEM
Comparison of Actual Revenues and Expenditures to Budgeted Revenues and Expenditures
For the Fiscal Year Ended June 30, 2015

	Original	Budget Final	Actual June 30, 2015	Variances To Final Budget
Operating Revenues				
Water Sales	\$ 1,250,000	\$ 1,250,000	\$ 1,233,341	(16,659)
Water Sales - Bad Debts Collected	2,500	2,500	2,258	(242)
Other Revenue	10,000	10,000	3,378	(6,622)
Penalties Income	50,000	50,000	46,626	(3,374)
Service Installation	10,000	10,000	8,450	(1,550)
Reconnections	18,000	18,000	17,580	(420)
Sale of Material	2,500	2,500	2,797	297
Over/(Short)	-	-	-	-
Total Operating Revenues	\$ 1,343,000	\$ 1,343,000	\$ 1,314,430	(28,570)
Operating Expenses				
City Water Purchased	\$ 170,000	\$ 170,000	\$ 139,902	30,098
Salaries	375,000	375,000	338,124	36,876
Contract Meter Reading	43,000	43,000	36,441	6,559
Bad Debt Expense	8,000	10,000	6,781	3,219
Payroll Tax Expense	30,000	30,000	25,597	4,403
Retirement Expense	28,000	28,000	19,679	8,321
Uniform & Clothing	3,300	3,300	3,003	297
Commissioners' Compensation	4,500	4,500	4,011	489
Postage	14,000	14,000	12,486	1,514
Freight	300	300	55	245
Licenses	300	400	350	50
State Fees	8,000	8,000	4,948	3,052
Membership Fees	3,200	4,200	4,039	161
Public Relations	1,000	1,000	550	450
Electrical	108,000	108,000	95,455	12,545
Gas - Heating	2,500	2,500	2,279	221
Phone	3,000	4,000	3,352	648
Lab Tests & Lab Expense	7,000	9,000	7,190	1,810
Professional Fees	4,950	5,150	4,050	1,100
Engineering Expense	2,000	4,000	2,409	1,591
Truck Repairs Expense	6,000	7,700	6,606	1,094
Backhoe Repairs	2,000	2,000	614	1,386
Ditcher Repairs	2,000	2,000	1,876	124
Radio Repairs Expense	5,000	5,000	2,200	2,800
Tires & Tire Repairs	3,000	3,000	2,663	337
Fuel Expense	26,000	26,000	17,403	8,597
Line Repairs & Maintenance	5,000	5,000	3,196	1,804
Plant Repairs & Maintenance	20,000	18,000	26,670	(8,670)
Travel - Staff & Board	1,500	1,500	-	1,500
Office Expense	19,000	19,000	12,981	6,019
Chemical Expense	23,000	23,000	22,256	744
Supplies - Lab	2,000	2,000	1,514	486
Supplies - Miscellaneous	2,500	2,500	2,234	266
Supplies - Repair	42,000	44,000	39,784	4,216
Insurance expense	85,000	85,000	72,203	12,797
Depreciation	270,000	270,000	264,324	5,676
Bank Service Charges	500	500	284	216
Deposit Expense	-	-	-	-
Total Operating Expenses	\$ 1,330,550	\$ 1,340,550	\$ 1,187,509	\$ 153,041
Operating Income (Loss)	\$ 12,450	\$ 2,450	\$ 126,921	\$ 124,471
Nonoperating Revenues (Expenses)				
Interest Income	\$ 15,000	\$ 15,000	\$ 9,861	\$ (5,139)
Interest Expense	-	-	-	-
Sale or Disposal of Assets	-	-	-	-
Total Nonoperating Revenues (Expenses)	\$ 15,000	\$ 15,000	\$ 9,861	\$ (5,139)
Change in Net Position	\$ 27,450	\$ 17,450	\$ 136,782	\$ 119,332
Net Position - July 1, 2014	\$ 6,246,704	\$ 6,246,704	\$ 6,246,704	\$ -
Prior Period Adjustment (See Note 8)			\$ (59,658)	
Net Position - June 30, 2014	\$ 6,274,154	\$ 6,264,154	\$ 6,323,828	\$ 59,674

See Independent Auditor's Report

Internal Control and Compliance Section

William M. Harmon

Certified Public Accountant

P.O. Box 491, 117 N. Main St.
Ripley, TN 38063-491
Tel. (731) 635-3791
Fax (731) 635-5626
williamharmoncpa.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To The Board of Commissioners
Lauderdale County Water System
Ripley, TN 38063

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2015 and have issued my report thereon dated January 18, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Lauderdale County Water System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lauderdale County Water System's internal control. Accordingly, I do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that

there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. (2013-01 & 2014-02)

Compliance and Other Matters

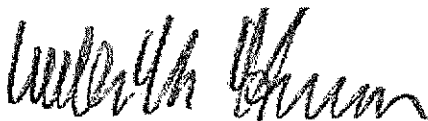
As part of obtaining reasonable assurance about whether the Lauderdale County Water System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as item (2014-3)

Lauderdale County Water System's Response to Findings

The Lauderdale County Water System's response to the findings identified in my audit is described in the accompanying schedule of findings and recommendations. I did not audit the System's response and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



William Harmon
Certified Public Accountant
Ripley, Tennessee
January 18, 2016

LAUDERDALE COUNTY WATER SYSTEM
Schedule of Findings and Recommendations
For the Period Ended June 30, 2015

STATUS OF PRIOR YEAR FINDINGS

- 2013-01 Material Audit Adjustments Required – Material Weakness. Repeated. See Finding 2013-01
- 2014-02 Bank Accounts Not Reconciled to the General Ledger – Material Weakness. Repeated. See finding 2014-02
- 2014-03 1099 Forms Not Issued – Compliance. Repeated. See 2014-03

CURRENT YEAR FINDINGS

- 2013-01 Material Audit Adjustments Necessary (Material Weakness)
- Condition: Material audit adjustments were required for proper financial statement presentation.
- Criteria: Generally accepted accounting principles require the Water System to have adequate internal controls over the maintenance of the accounting records and financial statements. The independent auditor cannot serve as an internal control over the System's financial statements.
- Effect: The lack of needed material adjustments could jeopardize the fair presentation of the System's financial reports.
- Response: The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to ensure that no material journal entries would be necessary for the financial statements to be materially correct at year end. We will provide additional training to our bookkeeper when possible. We will also discuss the hiring of an outside accountant to adjust the books prior to the next fiscal year end.
- 2014-02 Bank Accounts Not Reconciled to General Ledger (Material Weakness)
- Condition: The bank balances on the general ledger were not reconciled to the actual bank account balances.
- Criteria: The financial statements should be fairly stated and free of material misstatement before the commencement of the audit
- Effect: The lack of reconciliation could jeopardize the fair presentation of the System's financial reports.

Response: Some of the bank account information is delayed in being transmitted to the System. In the future we will strive to reconcile the bank account balances before the commencement of the audit.

2014-03 Some Required 1099 Miscellaneous Forms Were Not Issued (Compliance)

Condition: There were a few instances where 1099 Miscellaneous forms should have been issued to vendors for services rendered to the System.

Criteria: The Internal Revenue Service requires that any vendor being paid more than \$600 in a calendar year be issued a 1099 Miscellaneous form no later than January 31st of the following year.

Effect: The failure to submit these forms timely could subject the System to penalties.

Response: The System has issued 1099 Miscellaneous forms to vendors providing services. Some of the vendors furnish goods and services and we understand that those service vendors should be issued 1099 forms in the future and we will comply with this requirement in the future.